2 Undervalued TSX Dividend Stocks With Growing Payouts

Description

The market pullback in the financial sector and soaring oil prices are finally giving retirees and other investors focused on passive income a chance to buy top TSX dividend stocks at undervalued prices.

CIBC

CIBC (TSX:CM)(NYSE:CM) recently completed a two-for-one stock split to make the shares more appealing to a broader investor audience. This is why the stock trades close to $70 now instead of being around $140 in early May.

The downturn in the bank sector resumed its negative course in recent days after a brief bounce. As a result, investors can now pick up CIBC stock near the 12-month split-adjusted low. At the current share price near $67, the stock offers investors a 4.9% dividend yield.

The board increased the dividend by 10% late last year and just hiked the payout again when the company announced the fiscal Q2 2022 results. Investors will now get a quarterly distribution of $0.83 per share, up from $0.805 per share.

The stock traded as high as $83.75 earlier this year, so there is attractive upside opportunity for patient investors.

Why?

Rising interest rates are making bank investors nervous. Fears about a recession and a weakening housing market are causing investors to second guess their bank holdings. Higher rates, however, should drive up net interest margins and boost profits. The overall impact should be positive for CIBC.

Near-term volatility is expected until the market has a clearer picture of how rate hikes from the Bank of Canada and the U.S. Federal Reserve will impact the economy and the housing markets. At this point, a good chunk of the potential risk appears to be priced into CIBC stock, and the share price looks cheap for buy-and-hold dividend investors.

The fact that the board increased the dividend when the Q2 results came out suggests management is comfortable with the revenue and profits outlook over the next couple of years. CIBC's Q2 results came in weaker than expected due to higher loan-loss provisions, but the overall business performed well.

The bank maintains a strong capital position and should continue to make good money, even through an economic downturn.

Suncor

Suncor (TSX:SU)(NYSE:SU) finally started to catch a tailwind in recent weeks after a large activist investors announced a meaningful stake in the company and demanded a review of the board and the management team.

Since then, Suncor reported solid results for Q1 2022, and more good news should be on the way. Oil is up to US$120 per barrel compared to $100 at the end of March. The steady rise in oil prices throughout Q2 suggest the next round of earnings in the oil patch should set new records.

Suncor is also seeing a rebound in its downstream operations that include the refineries and retail locations. Gasoline prices are high, but demand continues to recover as commuters hit the highways again and vacationers gear up for their summer road trips. Jet fuel demand is also soaring with airlines bumping up capacity to meet travel demand that is approaching pre-pandemic levels.

Suncor trades near $53 per share at the time of writing. The stock is up almost 60% year to date, but it still appears undervalued, especially if oil prices are destined to hold above US$100 for the rest of the year. Suncor traded at $44 before the pandemic when WTI oil was only $60 per barrel.

The board raised the dividend by 12% when the company announced the Q1 results. This is on top of the 100% increase investors received last fall to make up most of the 2020 payout cut.

The bottom line on cheap dividend stocks to buy now

CIBC and Suncor look cheap right now and should deliver attractive total returns in the coming years. If you have some cash to put to work in a TFSA or RRSP, these stocks deserve to be on your radar.

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